



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE REGIONAL COUNCIL OF THE KAVANGO EAST REGION

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

Published by authority

Price (Vat excluded) N\$ 44.00

Report no: 62/2018

REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Regional Council of the Kavango East Region for the financial year ended 31 March 2016, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, April 2018

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
REGIONAL COUNCIL OF THE KAVANGO EAST REGION FOR THE FINANCIAL YEAR
ENDED 31 MARCH 2016**

1. INTRODUCTION

This report on the accounts of the Kavango East Regional Council for the financial year ended 31 March 2016 is presented to the National Assembly in accordance with the terms of provisions set out in Section 38 of the Regional Council Act, 1992 (Act 22 of 1992).

Figures in the report are rounded to the nearest Namibia Dollar and deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Kavango East Regional Council for the financial year ended 31 March 2016. These financial statements comprise of the following:

Annexure A: Balance sheet;
Annexure B: Income statement;
Annexure C: Cash flow statement;
Annexure D: Statement of changes in equity; and
Annexure E: Notes to the financial statements.

The financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 40(1) Regional Council Act, 1992.

The financial statements, notes to the financial statements and general information provided by the Accounting Officer are attached as Annexures A-E.

2. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 39 of the Regional Council Act, 1992 and relevant legislations, and for such internal controls as management determines it necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. I conducted the audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Powers and duties

Section 25(1) (c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself/herself that:

- (a) All reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;
- (b) All reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and
- (c) The expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26(1) (b)(iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinion.

4. ACKNOWLEDGEMENTS

The courtesy and assistance extended to the Auditor-General and his staff members by the Regional Council's staff during the audit are highly appreciated.

5. KEY AUDIT FINDINGS

5.1. SUSPENSE ACCOUNT

A suspense account amounting to N\$ 13 006 reflected under trade and other payables was not cleared at year-end.

Recommendation

It is recommended that the Council should adhere to the Financial Accounting Policies and Procedure Manual that stipulates that all balances posted to the suspense account should be cleared to a correct account(s) prior to the year-end.

5.2 MOTOR VEHICLE ALLOWANCE

Supporting documentation amounting to N\$ 623 399 for motor vehicle allowances for managers were not provided to auditors.

Recommendation

It is recommended that the Council should provide all supporting documentation for audit purpose.

5.3 INVENTORY

The existence and valuation of Inventory amounting to N\$ 104 578 could not be confirmed, because the auditors were not invited to attend the stock-taking at year-end.

Recommendation

It is recommended that the Council should invite staff from the Office of the Auditor-General to attend the stock-taking at year-end.

5.4 PROPERTY, PLANT & EQUIPMENT

A difference of N\$ 6 273 377 was observed between the asset register amount of N\$ 18 023 028 and the financial statement amount of N\$ 24 296 405.

Recommendation

It is recommended that the Council should ensure that the asset register is updated on a regular basis to reflect all Council assets.

5.5 ASSETS VERIFICATION

At the time of the audit, asset verification could not be carried out due to physical assets not having unique codes.

Recommendation

It is recommended that the Council should ensure that the codes in the fixed asset register and the physical assets are similar.

5.6 ADDITIONS TO THE FIXED ASSET REGISTER

The auditors observed for the sample selected amounting to N\$ 1 984 125, that fixed assets bought during the 2015/2016 financial year were not added to the fixed asset register.

Recommendation

It is recommended that the Council should ensure that the fixed asset register is updated to reflect the true value of the total assets.

5.7 REVIEW OF MAINTENANCE ACCOUNT

It was observed for the sample selected that major repairs of assets amounting to N\$ 112 353 were not capitalised but instead expensed.

Recommendation

It is recommended that the Council should ensure that repairs and maintenance to fixed assets are correctly treated.

5.8 CAPITAL PROJECTS

It was observed that invoices amounting to N\$ 1 478 901 for the 2014/2015 financial year were recorded in 2015/2016 financial year.

Recommendation

It is recommended that the Council should ensure that transactions are recorded in the correct accounting period and the accrual concept be applied.

5.9 NON-SUBMISSION OF SUPPORTING DOCUMENTS FOR REVENUE

Supporting document of funds received amounting to N\$ 4 888 068 were not provided for audit purpose.

Recommendation

It is recommended that the Council should ensure that all supporting documents are provided for audit purpose.

5.10 NORED SURCHARGES

At the time of the audit it was observed that invoices amounting to N\$ 234 062 were not processed in the general ledger, therefore the Council's revenue is understated.

Recommendation

It is recommended that the Council should ensure that all transactions are recorded in the general ledger.

5.11 VALUE ADDED TAX ON SALES

The Council does not charge VAT on sales.

Recommendation

It is recommended that the Council should charge VAT on all its vatable supplies.

5.12 NONE SUBMISSION OF SUPPORTING DOCUMENTS

Supporting documents relating to Build Together Programme beneficiaries were not provided for audit purposes.

Recommendation

It is recommended that the Council should ensure that all supporting documents are provided for audit purposes.

5.13 TRADE DEBTORS

At the time of audit, it was observed that invoices amounting to N\$ 234 062 from Nored for surcharges were not processed in the general ledger, therefore debtors is understated by the same amount.

Recommendation

It is recommended that the Council should ensure that all transactions are recorded in the general ledger.

5.14 DAILY SUBSISTENCE AND TRAVELING ALLOWANCE (DSTA)

The auditors have noted that daily subsistence travelling allowance advances amounting to N\$ 1 063 637 remains outstanding for more than 180 days.

Recommendation

It is recommended that the Council should request debtors to submit claims of daily subsistence and travelling allowance.

5.15 VALUE ADDED TAX

An unexplained difference of N\$ 476 010 was noted between the year-end closing recalculated balance of the Council amounting to N\$ 6 162 168 and the Receiver of Revenue closing balance of N\$ 6 638 178.

Recommendation

It is recommended that the Council should perform year-end reconciliation on VAT.

5.16 BUILD TOGETHER PROGRAMME

It was observed that the invoices amounting to N\$ 104 288 for disbursements were not paid nor processed in the period it occurred. The transactions were only processed in the current financial period when payments were made.

Recommendation

It is recommended that the Council should ensure that all invoices are recorded in the correct financial period.

5.17 STUDY FINANCIAL ASSISTANCE

At the time of the audit it was observed that payments amounting to N\$ 261 234 were incorrectly expensed, therefore debtors are understated by N\$ 261 234.

Recommendation

It is recommended that the Council should record invoices in the correct account.

6. BASIS FOR ADVERSE AUDIT OPINION

- Uncleared suspense account amounting to N\$ 13 006;
- Non- submission of supporting document amounting to N\$ 623 399 for vehicle allowances;
- Unexplained difference amounting to N\$ 6 273 377 for property plant and equipment;
- Unconfirmed ownership of assets;
- Unrecorded additions to the asset register amounting to N\$ 1 984 125;
- Repairs not capitilised on assets amounting to N\$ 112 353;
- Unrecorded invoices for capital projects amounting to N\$ 1 478 901;
- Non submission of supporting document for funds received amounting to N\$ 4 888 068;
- Unprocessed invoices amounting to N\$ 234 062 for Nored surcharges;
- VAT not charged on sales;
- Non submission of supporting documents for build together beneficiary;
- Uncleared daily subsistence and traveling allowance amounting to N\$ 1 063 637;
- Unexplained difference amounting to N\$ 476 010 for VAT;
- Unprocessed and unpaid invoices for build together programme amounting to N\$ 104 288;and
- Payments amounting to N\$ 261 234 were incorrectly expensed.

7. ADVERSE AUDIT OPINION

The accounts of the Regional Council of the Kavango East region for the financial year ended 31 March 2016 has been audited in terms of Section 38 of the Regional Councils Act , 1992 (Act 22 of 1992).

In my opinion because of the significance of the matters discussed in the Basis of Adverse audit opinion paragraph, the financial statements do not present fairly the financial position, and the financial performance of the Kavango East Regional Council as at 31 March 2016 and its cash flows, for the year then ended.

WINDHOEK, April 2018



JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

	Note	2016	2015
		N\$	N\$
ASSETS			
Non-current assets	2	73 508 527	49 728 919
Fixed assets		24 296 405	24 030 973
Work in progress		49 212 122	25 697 946
Current Assets		37 813 414	65 899 451
Debtors control & Sundry debtors	4	7 579 575	5 129 196
Cash and cash equivalent	3	23 928 338	56 506 418
VAT Receivables	4	6 200 923	3 898 847
Stock on hand		104 578	364 990
TOTAL ASSETS		111 321 941	115 628 370
EQUITY AND LIABILITIES			
Liabilities		5 519 231	2 562 123
Current liabilities	5	5 519 231	2 562 123
Equity		105 802 711	113 066 247
Accumulated funds		(16 379 540)	67 129 135
Surplus and deficit for the year		125 775 377	-
Build Together Fund		(3 593 126)	45 937 112
Retained surplus from previous year			
TOTAL EQUITY & LIABILITIES		111 321 942	115 628 370

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH

		2016	2015
	Note	N\$	N\$
INCOME	6	49 089 699	92 613 149
EXPENDITURE	7	53 513 287	47 718 890
NET OPERATING SURPLUS/(DEFICIT)		(4 423 588)	44 894 259
Net interest received	6	830 462	1 042 853
NET SURPLUS /DEFICIT FOR THE YEAR		(3 593 126)	45 937 112

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH

	Note	2016	2015
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operation	8	(23 893 303)*	46 670 154
Cash generated from investment activities		-	683 531
Net cash flow from operating activities		(23 893 303)	47 353 685
Investing Activities			
Cashflow from investing activities		(25 855 189)	(27 274 145)
Purchases of property, plant and equipment		(23 779 609)	(27 274 145)
Financing Activities			
Net cash inflow/outflow from financing activities		17 170 412	-
Development Capital Project		17 170 412	-
Total Cash Movement		(32 578 080)	19 396 009
-Cash at the Beginning of the year		56 506 418	37 110 410
- Total Cash at the end of the year		23 928 338	56 506 419

*The amount of N\$ 23 175 403 in note 8 differ to the amount in the cash flow of N\$ 23 893 303. There is an unexplained difference of N\$ 717 900.

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH

31 March 2016

Accumulated Fund and Reserves

6a	Opening balance as at 01/04/2015	Adjustments	Additions	Closing balance as at 31/03/2016
	N\$	N\$	N\$	N\$
Net surplus	133 066 246	(129 445 787)	(3 593 126)	(19 972 667)
Development Fund Capital	-	106 170 964	17 170 412	123 341 377
Build Together Revolving	-	2 434 000	-	2 434 000
TOTAL	113 066 246	(20 840 823)	13 577 286	105 802 710

6b

31 March 2015

Accumulated Fund and Reserves

	Opening Balance as at 01/04/2014	Adjustments	Additions	Closing balance as at 31/03/2015
	N\$	N\$	N\$	N\$
Net surplus	102 884 252	(35 255 723)	45 937 112	113 066 246
TOTAL	102 884 252	(35 255 723)	45 937 112	113 066 246

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

1. ACCOUNTING POLICIES

The annual financial statements are in compliance with the historical cost convention modified by the restatement of the financial instruments to fair value except where otherwise stated.

The annual financial statements are prepared in line with the accrual concept. It should be noted however that income and expenditure in relation to delegated function is accounted for during the year on a cash accounting concept in line with the State Finance Act 1991. However, since all liabilities in relation to delegated functions remain with the relevant line ministry and all unexpended delegated funds are returned to the State Account as at 31 March this does not materially affect the Regional Council financial statements.

The principal accounting policies of the Regional Council which are set out below have been consistent and comply with the Namibian Statement of Generally Accepted Accounting Practices. The Financial Statements have been prepared in accordance with the requirements of the Namibian Regional Councils Act.

1.1 Plant and equipment

All fixed assets are stated at historical cost less accumulate depreciation. Depreciation is calculated using the straight-line method to write off the cost of each assets to its residual value over its estimated useful economic life. The estimated useful economic lives for each category of assets are as follows:

The estimated useful lives are as follows:

Computer equipment	3 years
Furniture and Fittings	5 years
Motor vehicles	5 years
Buildings	50 years
Office Equipment	3 years
Construction Equipment	5 years

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
(Continued)

2. PLANT AND EQUIPMENT AS AT 31 MARCH 2016

	Land and Buildings	Plant Machinery & Vehicles	Office Furniture & Equipment Computers	Work in progress	TOTAL
	N\$	N\$	N\$	N\$	N\$
Opening carrying amount	18 653 877	5 017 046	360 049	25 697 946	49 728 918
Gross carrying amount	21 935 933	8 540 351	2 015 905	25 697 946	58 190 135
Accumulated depreciation	(3 282 056)	(3 523 305)	(1 655 856)	-	(8 461 217)
					-
Movement for the year	290 808	(483 283)	457 909	23 514 176	23 779 610
Depreciation charge	(503 666)	(1 361 024)	(210 890)	-	(2 075 580)
Adjustments	(24 098)	-	(8 443)	-	(32 541)
Additions	818 572	877 741	677 242	23 514 176	25 887 731
Closing carrying amount	18 944 684	4 533 763	817 958	49 212 122	73 508 527
Gross carrying amount	22 754 505	9 418 092	2 684 704	49 212 122	84 069 423
Accumulated depreciation	(3 809 821)	(4 884 329)	(1 866 746)	-	(10 560 896)

Adjustments

Land and buildings Accumulated depreciation as at 31/03/2015 is different from the ledger as at 1/04/2015 (24 098)

Furniture Cost for Furniture as at 01/01/2015 is different from the listing of assets as at the 31/03/2015 (8 443)

Total Adjustment for Assets (32 542)

ANNEXURE E

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
 (Continued)

PLANT AND EQUIPMENT AS AT 31 MARCH 2015

	Land and Buildings	Plant Machinery Equipment & Vehicles	Office Furniture Equipment & Computers	Work in progress	TOTAL
	N\$	N\$	N\$		N\$
Opening carrying amount	25 345 146	9 254 545	2 881 318	25 561 069	63 042 078
Gross carrying amount	28 214 128	11 962 037	4 349 488	25 561 069	70 086 722
Accumulated depreciation	(2 868 982)	(2 707 492)	(1 468 170)	-	(7 044 644)
Movement for the year	(6 691 269)	(4 237 499)	(2 521 269)	136 877	(13 313 160)
Depreciation charge	(413 074)	(815 813)	(187 686)	-	(1 416 573)
Adjustments	(8 596 143)	(8 266 037)	(2 544 494)	-	(19 406 674)
Additions	2 317 948	4 844 351	210 911	136 877	7 510 087
Closing carrying amount	18 653 877	5 017 046	360 049	25 697 946	49 728 918
Gross carrying amount	21 935 933	8 540 351	2 015 905	25 697 946	58 190 135
Accumulated depreciation	(3 282 056)	(3 523 305)	(1 655 856)	-	(8 461 217)

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
(Continued)

3. CASH AND CASH EQUIVALENTS

	2016	2015
	N\$	N\$
FNB Operational account	(250 655)	42 197
FNB Main Call Account	8 851 987	9 477 348
FNB Development Fund	634 198	465 311
FNB Development Fund Call	4 120 069	20 090 613
FNB Build together Receipt	128 357	511 381
FNB Build together Disburse	16 842	65 330
FNB Build together Call	547 756	626 788
FNB Cheque Account	6 864 931	3 753 972
FNB Revenue account	407 799	903 334
STD Fleet Management account	104 006	40 190
KRC BT Post Office	97	97
Drought Relief	(1 051)	30 168
Rural Development Account	2 207 303	20 366 114
STD Fleet call	290 698	120 000
Cash Control (Cash in hand)	6 001	13 575
	23 928 338	56 506 418

Adjustment on banks**FNB Main Call Account**

Adjustment was done to correct the opening balance which was caused by a wrongly captured payment transaction which remained outstanding as at 31/03/2015

Balance as per financial for 31/ 03/ 2015	N\$	9 477 348
Correct opening balance as per bank statement	N\$	12 477 348
Adjustment was done to correct the	N\$	3 000 000

Fleet call account

An adjustment of fleet call account was also done to the retained income because transactions on that account were not recorded in 2014 -15 financial year

the balance as per the final was:	N\$	120 000
Correct balance from the from the bank statement 3/03/2015	N\$	126 675
Adjustment amount	N\$	6 675

Total Adjustment on Banks to retaining earnings	N\$	3 006 675
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REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
(Continued)

	2016	2015
	N\$	N\$
4. DEBTORS CONTROL ACCOUNT		
Kavango west	518 734	-
Trade Debtors	723 881	192 796
VAT	6 200 923	3 898 847
BTP	4 747 392	3 065 989
Substance and Travel Allowance	1 063 637	969 414
Salaries	141 973	515 639
Study Financial Assistance	383 958	385 958
	13 780 498	9 028 643
5. CREDITORS CONTROL		
Creditors Control	1 672 244	1 854 941
Build together Nkurenkure	34 306	21 213
Conservation	228 250	-
Btp unknown receipts	3 140	-
Suspense	13 006	594 855
Directorate of Education	3 568 285	-
Drought Relief	-	91 114
	5 519 231	2 562 123

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
(Continued)

	2016	2015
	N\$	N\$
6. INCOME		
Government Transfer-Mrlghrd	40 651 894	74 993 048
5% Rates from Local Authorities	373 343	379 551
Rural development project income	41 000	11 678 494
Income from Settlement Areas	328 942	333 363
Royalties and Other income	1 003 330	1 101 452
Hiring of properties	50 365	38 302
Interest received	830 462	1 042 853
Other income	382 802	591 521
Delegated functions income	6 258 023	3 497 418
	49 920 161	93 656 002
7. EXPENDITURE		
Remuneration	24 032 960	24 886 221
Employer s contribution -GIPF &MOP	3 116 023	3 221 054
Other condition of services	1 263 764	737 719
Subsistence & Travel	2 152 477	1 337 974
Materials and Supplies	805 629	231 526
Transport Charges	925 449	1 004 973
Utilities	3 852 796	2 264 520
Maintance Charges	141 184	916 590
Property Rentals	327 298	270 424
Depreciation expenses	2 075 580	1 416 573
Other services and expenditures	4 218 185	4 990 706
Current transfer to independent & non-profit making	146 950	-
Constituency Development fund	118 904	-
Delegated functions expenditure	8 590 977	2 479 230
Rural development expenses	1 681 474	2 385 537
Development fund expenses	63 637	1 575 843
	53 513 287	47 718 890
SURPLUS /(DEFICIT) FOR THE YEAR	(3 593 126)	45 937 112

REGIONAL COUNCIL FOR THE KAVANGO EAST REGION
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH
(Continued)

	<u>2016</u>	<u>2015</u>
	N\$	N\$
8. NOTE TO THE CASH FLOW		
Cash flow generated from operating activities		
Net loss for the year	(3 593 126)	45 937 112
Add back non cash items		
Depreciation	2 075 580	1 416 573
less interest	576 271	(804 456)
Bank charges	141 629	120 925
Changes in receivables	(4 752 455)	-
Changes in liabilities	2 957 108	-
Changes in inventory	260 412	-
Adjustment to retained income	(20 840 822)	-
Cash flow generated from operating activities	<u>(23 175 403)</u>	<u>46 670 154</u>

*The amount of N\$ 23 175 403 differ to the amount in the cash flow of N\$ 23 893 303. There is a difference of N\$ 717 900.